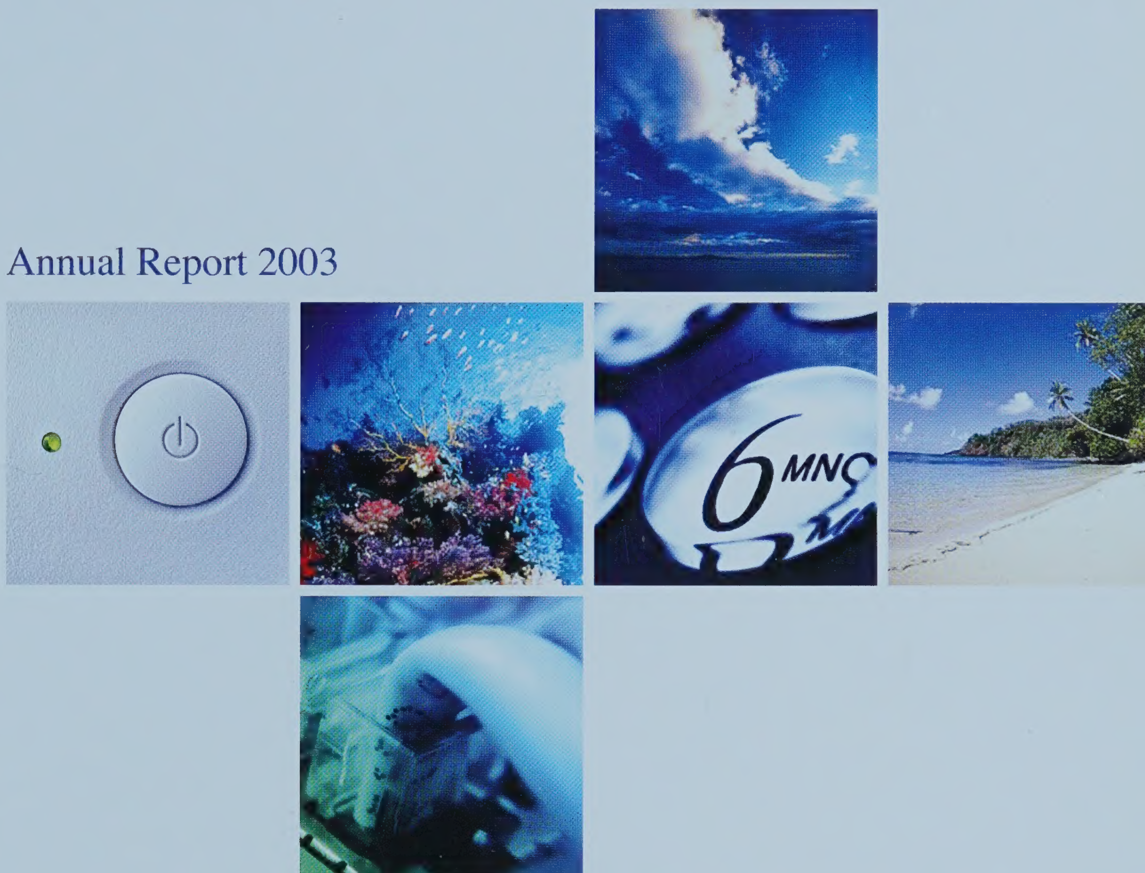
Growth, Expansion, Profitability

Building IT Market Share in Australasia and the South Pacific

Annual Report 2003



datec
Datec Group Ltd.
(Formerly Brocker Technology Group)

Corporate Profile

Datec Group, established in Edmonton in 1993, is a leading IT solution provider in Australasia and employs approximately 400 people in seven countries throughout the South Pacific. The Company is among IBM's largest Business Partners in the South Pacific; its other business partners include Microsoft, Oracle, Computer Associates, Cisco and Avaya.

Corporate headquarters are in Edmonton, Alberta.

TSX: DGL
NASDAQ: DTGLF

Year-end: December 31

Annual Meeting

The Annual General Meeting of the shareholders of Datec Group Ltd. will be held on:
June 25th, 2004 10:00am The Metropolitan Conference Centre, Plaza Room, 333 – 4th Avenue S.W. Calgary, Alberta. Shareholders and others interested in the business of the Company are invited to attend.

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2003 HIGHLIGHTS

Datec Group Posts Third Consecutive Year of Double-digit Revenue Growth

Consolidated Financial Highlights

($ Cdn)

	12 Months Ended Dec 31, 2003	12 Months Ended Dec 31, 2002	Percent Change
Revenues	$48,631, 278	$42,128,941	15.9
Gross profit	$23,817,139	20,023,592	20.0
Gross profit as a percentage of revenue	49.2	47.5	
Profit before income taxes	$1,682,982	1,252,859	34.0
Net profit	$1,598,921	1,205,701	32.6
Net profit as a percentage of revenue	3.3%	2.8%	
Weighted average number of shares*	11,539,137	6,348,115	
Profit per share - basic	$0.14	$0.19	
Profit per share - diluted	$0.10	$0.18	
Cash flows from operating activities	($86,780)	$4,782,444	
Long term debt	$4,952,017	$5,528,487	
Share capital	$32,765,393	$29,609,775	
Shares outstanding at year-end (basic)*	20,974,828	6,555,611	

** 2003 figures reflect the two-for-one stock split effected in October 2003.*

CHAIRMAN'S MESSAGE

To Our Shareholders:

It is with great pleasure that I prepare this letter for Datec Group's 2003 annual report. In my 2002 letter to the shareholders I stated that Datec had "... re-mastered our core competencies and, I must say, we have re-mastered our core values. Your company has been reorganized, revitalized and is now ready for growth".

I think it's fair to say that the management of your Corporation has made me look prophetic with the achievement of double-digit growth in revenue for the third consecutive year. The fact we were able to grow both gross and net earnings is a testament to our ability to be efficient and cost-effective while making the transition to a more services-based organization.

Capitalizing on Opportunity

In 2003 the Company was still in the process of reorganizing and restructuring operations. In fact, cash flow in fiscal 2003 was marginally negative, largely a result of the final settlement of a number of accrued liabilities from the wind down of Brocker Technology activities.

Longer-term shareholders will recall that in October 2000 Brocker acquired the Generic Technology Group, a privately-held company operating the Datec Group of companies. Since then, we have been focused on a growth strategy to capitalize on the strengths of Datec. The operations of the Company have been comprised essentially of the business operations of Datec since the beginning of 2002. In June 2003, to better reflect our operating identity, the name of the Company was changed to Datec Group Ltd.

The concept of the Datec Group is strong. Our geographic spread is important to reducing exposure from fluctuating local market conditions and exchange rates. Our mix of services is also important, as is our roster of world-class business partners who include IBM, Microsoft, Oracle, Computer Associates, Cisco and Avaya.

Throughout 2003 the Datec management team was focussed on an aggressive strategy to consolidate the Company's leadership position while expanding its business and improving cost-efficiencies.

Restructuring and Reorganizing the Operating Foundation

In the first half of 2003 Datec invested over $800,000 in the expansion of its operating activities, establishing offices in Samoa, Tonga and Vanuatu and strengthening operations in Fiji and Papua New Guinea. In the fall of 2003 two operating divisions in Fiji were merged to further increase operating efficiencies. In total $2.09 million was invested in the business in 2003.

In December we announced the completion of the acquisition of Certus Consulting in New Zealand; Certus is one of the largest IBM-only Business Partner for software in the Australasian region. In January 2004 we announced the acquisition of the majority interest of Sybrel Ltd., which focuses on emerging applications for mobile software and also operates in New Zealand, Australia and the Pacific region.

Strengthening Our Financial Position

Although Datec has achieved profitable operations in 2002 and 2003, the Company is still in a deficit position. We are working on a number of initiatives and activities to strengthen the financial position of the Company; some of these came to fruition in fall 2003.

In September the vendors of Generic Technology converted half of their loans to the Company into equity; this resulted in the conversion of $2.5 million of debt to equity. It also helped reduce both long-term debt and annual interest expense on that debt.

October 8, 2003 was the record date for the two-for-one split of Datec's common shares, which was done to provide greater liquidity for our shareholders. We believe this will prove to be of key significance in growth of the Company's market capitalization.

On May 5, 2004 the Company's financial position was further strengthened by the elimination of another $2.1 million in debt by the exercise of warrants. Again this was a very satisfying demonstration of investor faith and confidence in the Company and the direction it is heading. Overall, since the beginning of 2003 to the time of writing, long-term debt has been reduced from $5.5 million to $2.9 million.

Building IT Market Share

Today Datec is a leading IT solution provider in Australasia. We have operations offices in Australia (Sydney and Brisbane), New Zealand (Auckland, Christchurch and Wellington), Papua New Guinea (Lae and Port Moresby), Fiji (Suva and Nadi), Vanuatu (Port Vila), Samoa (Apia) and Tonga (Nuku'alofa). We have also made an application to establish an office in the Solomon Islands.

Datec's senior management team, led by Michael Ah Koy, Chief Executive Officer, continues to focus on growth, expansion and profitability, while maintaining flexibility to respond to challenges and opportunities in the geographically diverse marketplace in which we operate.

Your Board of Directors and your Executive Team are committed to increasing shareholder value through bottom-line growth. We are confident we on the right track to achieve this objective.

On behalf of the Board of Directors, I wish to formally thank our shareholders for your support of our vision of the future for Datec Group. It also gives me pleasure to formally thank our employees in our 12 offices in seven countries throughout Australasia – you are on the leading edge of Datec's success.

I look forward to reporting strong performance from Datec in fiscal 2004.

On behalf of the Board of Directors

Casey J. O'Byrne
Chairman

May 20, 2004
Edmonton, Alberta

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003

This Management Discussion and Analysis should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2003. Throughout this Management Discussion and Analysis the terms "Datec", "the Corporation", "we", "us" and "our" refer to Datec Group Ltd. and its subsidiaries.

1. SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following tables set forth selected financial information for the Corporation for the indicated fiscal periods. This selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, Datec's consolidated financial statements, including notes thereto, for the respective fiscal periods.

	Years Ended December 31		
(In thousands of dollars)	**2003 (12 Months)**	**2002 (12 Months)**	**2001 (9 Months)**
Revenues	48,631	42,128	27,730
Income (loss) from continuing operations	1,598	1,205	(466)
Income (loss) from continuing operations per share	.14	0.19	(0.23)
Income (loss) from continuing operations per share fully diluted	0.10	0.18	N/A
Net Income (Loss)	1,598	1,205	(1,116)
Net Income (Loss) per share	.14	.19	(.23)
Net Income (Loss) per share fully diluted	.10	.18	(.23)
Cash Dividends(1)	Nil	Nil	Nil
Total Assets	38,699	33,803	40,879
Long Term Debt	4,952	5,528	10,416
Shareholder's Equity	13,797	9,078	7,778
Net Loss from discontinued Operations	Nil	Nil	(4,121)

(1) To date no dividends have been declared or paid on the Common Shares.

2. MANAGEMENT'S DISCUSSION AND ANALYSIS

Comparison of Year Ended December 31, 2002 to the Year Ended December 31, 2003

Results of Operations

Since December 31, 2001, a number of the company's marginal businesses have been sold or discontinued in a managed wind down process.

The accounts tabled for the 9 month period to December 31, 2001 clearly identify the effect of these closures and this discussion and analysis pertain to those business units of the company that remain and are trading. These operations are comprised mainly of the Datec Group of companies, obtained as a result of the acquisition of Generic Technology Ltd.

Revenues of continuing operations

2003 (12 Months)	Change	2002 (12 Months)	Change	2001 (9 Months)
48,631,278	15.4%	42,128,941	14%	27,730,996

The Corporation's revenues were $48.63 million for the 12 months ended December 31, 2003, representing an increase of 15.4% from the revenues of $42.1 million for the same period to 31 December 2002. This increase reflected the success of Datec's strategy to consolidate its leadership position in key Pacific Islands markets while expanding its operations organically into those markets in which it previously did not operate. It also represents the third consecutive year of double digit growth of the revenue of the corporation.

The Corporation is, in some of the jurisdictions in which it conducts operations, the only authorized representative of IBM, and sales of IBM products and related products and services represents a significant portion of the revenues of the Corporation consequently the loss of the Corporation's status as an authorized representative could have a negative impact on its operations.

Gross Margin

2003 (12 Months)	Change	2002 (12 Months)	Change	2001 (9 Months)
23,817,139	18.9%	20,023,592	31.6%	10,020

Overall, for continuing operations in the 12 month period ending December 31, 2003 the Corporation's gross margin as a percentage of revenues was 49.0% compared to 47.5% for the 12 months ended December 31, 2002.

This represented an increase in average gross margins of 3.1%. This growth reflects the consistent business and margin mix that the operations of the Corporation has achieved transitioning to a more services-led corporation.

Operating Expenses

	2003 (12 Months)	Change	2002 (12 Months)	Change	2001 (9 Months)
Depreciation	1,410,519	12.8%	1,250,588	(55%)	2,108,181
Net Interest	743,719	(26.2%)	1,007,427	27.1%	594,938
Salaries	9,774,133	17.4%	8,322,486	13.7%	5,485,061
Other	10,308,736	18.7%	8,683,804	159%	2,498,729
Total	22,237,107	15.4%	19,264,305	(34%)	10,686,909
% Revenue	45.7%		45.7%		38.5%

For the continuing operations of the Corporation, the operating expenses increased on a comparative basis from $19.2 million, or 45.7% of revenues, for the 12 months to December 31, 2002, to $22.2 million, or 45.7% of revenues for the 12 month period ended December 31, 2003. In the fourth quarter of 2003 the corporation restructured a part of its business in Fiji to increase efficiencies in the delivery of its breadth of services. These measures reflected in the slight improvement in the operating cost ratio of the business. Further improvements are expected in the financial year 2004.

Set out following is additional information concerning certain components of the operating expenses:

1. AMORTIZATION

These expenses increased to $1.4 million, 2.8 % of revenues, for the 12 months ended December 31, 2003 from $1.2 million, or 2.9% of revenues, in the 12 month period up to December 31, 2002. This increase was a result of the change in certain depreciation rates in the Datec operations in Fiji, and the initial depreciation expense taken for the investment made in new Datec operations in Tonga, Samoa and Vanuatu.

2. NET INTEREST EXPENSE

In nominal terms the Corporation's net interest expense decreased from $1.007 million for the 12 months to December 31, 2002 to $.743mn for the 12 month period to December 31, 2003. This decrease was primarily attributable to:

[a] Repayment in full of the loan outstanding on the building previously owned by the corporation at Kahika Place Beachhaven; which was sold on December 24, 2001.

[b] The savings in interest accrued by the corporation on the debenture outstanding to the vendors of Generic technology as a result of the vendors electing to convert part of this debenture to equity in the corporation. This transaction took effect from September 12, 2003.

The full annualised effect of these interest savings will be realised in the 2004 financial year. These savings will be enhanced by the fact that during the second quarter of 2004 the vendors of Generic technology elected to exercise all of their warrants to purchase stock in the corporation in exchange for interest and debenture principle payments. As a result interest to be accrued on this debenture will be significantly reduced further in the 2004 financial year.

3. SALARIES AND COMMISSIONS

These expenses increased in the period ending December 31, 2003 to $9.77 million, or 20.1% of revenues, from a comparable $8.32 million in the 12 month period to December 31, 2002 or 19.7% of revenues. While this is a nominal increase in salary and commission expenses, the ratio of salaries and commissions to sales revenue remains relatively static at 20%.

4. OTHER OPERATING EXPENSES

For the 12 months ending December 31, 2003, these expenses were $10.3 million. In the 12 months ended December 31, 2002 these expenses were $8.7 million. This represented an annual increase of 18.7% however, as a ratio of sales revenue, this expense was a slight increase of 0.6%.

Profit from operations

2003 (12 Months)	Change	2002 (12 Months)	Change	2001 (9 Months)
1,598,921	32.6%	1,205,701	N/A	(1,116,918)

The operating profit of $1.599 million for the 12 months ended December 31, 2003 is an increase of $0.393 million, or 32.6%, over the previous year. This increase is attributable to increased revenues while maintaining or improving gross margins and operating expenses.

Other income

Other income reported in the 12 months to December 31, 2002 was primarily from gains made from foreign exchange transactions throughout the year, and from a one off gain made on the sale of the Corporation's 66% shareholding in what was known as Datec Vanuatu Ltd. In 2003 income earned from non-core operations was relatively insignificant at $26,131, while foreign exchange gains were $76,819.

Non-controlling interest

Generic Technology Limited, acquired in October 2000, has interest in a number of operating subsidiaries. The majority of these subsidiaries are wholly owned. In addition, Generic holds a 50% interest in Datec (PNG) Limited and Enertec Australia Limited, and a 52% of Kepra Pty Ltd. In accordance with generally accepted accounting principles these investments are consolidated and are adjusted for non-controlling or minority interests.

Taxation expense

The Corporation overall had a tax credit recoverable to it of $.113 million primarily as a result of the recognition during the current year of prior years' tax losses. The company received a favourable ruling from the tax authorities of that certain tax losses were valid and therefore it was considered more likely than not that they would be realized in current and future years. In prior years it was management's assessment that such tax losses were not more likely than not to be recognized and accordingly, were not recorded at that time.

Net Profit after tax and minority interests and discontinued operations

2003 (12 Months)	Change	2002 (12 Months)	Change	2001 (9 Months)
1,598,921	32.6%	1,205,701	N/A	(5,238,407)

The net profit after tax and non-controlling interests of $1.599 million for the 12 months ended December 31, 2003 is compared with a profit of $1.207 million for the 12 month period ended December 31, 2002. This profit represents 3.3% of Revenue for the period compared with a profit of 2.8% of revenue for the 12 months to December 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

Shareholders equity

2003	Change	2002	Change	2001
13,797,063	51.9%	9,078,621	13.1%	7,778,361

RECENT FINANCING TRANSACTIONS

The major financial transaction that took place during the 12 months to December 31, 2002 was the conversion of 50%, or approximately $2.4 million, of the debenture outstanding to the vendors of Generic Technology Ltd in September 2002. This in effect converted $2.4m of debt into equity in the corporation. In addition, during the year the Corporation also completed a private placement for $300,000.

FUNDING OF OPERATIONS

Cash flows

	2003 (12 Months)	2002 (12 Months)	2001 (9 Months)
Operations	(86,780)	4,782,444	1,583,767
Investing	(2,089,300)	(433,611)	1,232,749
Financing	1,531,974	(5,018,333)	(2,584,801)
Net cash flows	(644,106)	(669,500)	231,715

In the 12 months to December 31, 2003, the cash flow from the business was marginally negative at $86,780. Cash from operating activities in the 12 months to December 31, 2003 was utilised in providing inventory to the new Datec operating locations in Samoa, Tonga and Vanuatu. It is also reflected in the increased accounts receivable in these locations and was used to settle a number of accrued liabilities related to the wind down of the operations of Brocker Technology Group NZ Ltd. Specifically these were; payments to the Commonwealth Bank of Australia on account of a Brocker Guarantee over a lease for premises occupied by Sealcorp Australia Ltd, and settlement of outstanding legal, accounting and consulting fees relating to Brocker Technology Group NZ Ltd.

A total of $2.09 million in cash was used to invest in the business compared to approximately $.433 million in 2002. Purchases of property and equipment in both 2002 and 2003 amounted to approximately $2.1 million, however, in 2002 the Corporation received proceeds form the sale of asses totaling approximately $1.68 million.

A further $1.53 million was provided by the financing activities of the corporation compared with a net outflow of $5.023 million in 2002. The financing activities in 2003 were primarily mortgage financing raised to fund property acquisition, while in 2002 the financing activity was primarily the repayment of mortgage debt related to properties sold.

The Corporation has a net cash overdraft position of $1.7 million as of December 31, 2003 compared with a net overdraft position of $1.054 million as at December 31, 2002.

As at December 31, 2003 Datec had working capital credit lines in place of $4.5 million, of which $1.7 million were utilized.

Datec has no plans to seek additional financing at this juncture other than the possible realization of the equity held in its real estate assets to eliminate all long term debt from its balance sheet. These plans may change if Datec has the opportunity to make further acquisitions in New Zealand and the Pacific.

CERTAIN BALANCE SHEET CHANGES

Set forth below is information concerning certain changes in the 2003 Balance sheet relative to the2002 balance sheet.

Working capital

	2003	Change	2002	Change	2001
Current assets	16,827,848	14.9%	14,642,977	(35.3%)	22,632,100
Current liabilities	17,901,996	2.5%	17,471,125	(16.4%)	20,891,282
Working capital	(1,074,148)		(2,828,148)		1,740,818

The working capital in the 12 months ended December 31, 2003 while still negative at ($1,074,148), is a significant improvement on the working capital as at December 31, 2002, which was $(2,828,148). The improvement was primarily due to the Corporation's net earnings of $1,598,921.

Deferred development costs

2003	Change	2002	Change	2001
215,657	N/A	–	–	–

The deferred development costs in 2003 relate to the development costs of some specialised financial applications that have been packaged for resale to financial institutions in developing countries. Channels for the resale of this intellectual property are currently being explored.

Goodwill

2003	Change	2002	Change	2001
12,745,211	17.1%	10,881,915	–	10,881,915

The increase in goodwill is attributed to the acquisition in 2003 of the business of Certus Consulting Ltd.

The remaining goodwill value relates principally to the acquisition of Generic. Management has reviewed the carrying value of this goodwill and are satisfied there is no impairment of its value as at the balance sheet date.

Capital assets

2003	Change	2002	Change	2001
7,873,342	2.9%	7,651,814	6.0%	7,218,773

Long – term debt

2003	Change	2002	Change	2001
4,952,017	(10.4%)	5,528,487	130%	10,415,764

The remaining long term debt is mainly the principle of the debenture owing to the vendors of Generic Technology Ltd and loans outstanding on buildings in Fiji.

Exercise of warrants and Conversion of Debt into Equity
In the second quarter of 2003, the vendors of Generic Technology Ltd elected to exercise all of their outstanding warrants and convert loans to the Corporation into equity. As a consequence, a total of 6,469,700 common shares were issued in exchange for 4,053,302 warrants and $2,416,668 in long term debt. Interest costs will reduce significantly in 2004.

Quarterly Financial Summary

12 Months to 31/12/2003 Financial Results

	Qtr Ending 31/03/03	Qtr Ending 30/6/03	Qtr Ending 30/9/03	Qtr Ending 31/12/03
Total Revenues	14,080,484	10,965,002	10,446,913	13,138,879
Net earnings (loss) from continuing operations	297,822	514,297	443,590	343,212
Per Share	0.05	0.05	0.06	0.03
Fully diluted				
Net Earnings (loss) for the period	297,822	514,297	443,590	343,212
Per share	0.05	0.05	0.06	0.03
Fully diluted				
	Qtr Ending 31/03/02	**Qtr Ending 30/06/02**	**Qtr Ending 30/9/02**	**Qtr Ending 31/12/02**
Total Revenues	12,828,921	7,018,682	11,622,023	10,659,315
Net earnings (loss) from continuing operations	222,603	237,398	286,375	459,325
Per Share	0.03	0.04	0.05	0.07
Fully diluted				
Net Earnings (loss) for the period	222,603	237,398	286,375	459,325
Per share	0.03	0.04	0.05	0.07
Fully diluted	0.03	0.04	0.05	0.06

Outstanding Share Data

As at May 17, 2004 the Corporation had 27,513,624 Common Shares outstanding, being the only class of the Corporation's shares outstanding. In addition, as at that date the Corporation had reserved 897,500 Common Shares pursuant to outstanding stock options under its Stock Option Plan and a further 1,814,000 Common Shares pursuant to other outstanding options and warrants. The Corporation has also reserved a total of 750,000 Common Shares pursuant to an Employee Share Purchase Plan, which has been approved but not yet implemented.

Critical Accounting Estimates

The Corporation's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates that reflect management's estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management's best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results could differ from these estimates.

The following discussion outlines the accounting policies and practices and management's estimates that are critical to determining Datec's financial results.

Goodwill impairment

The Corporation tests goodwill for impairment annually and when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. When such review indicates an impairment to the goodwill value, an impairment loss is charged to expense in the period that impairment has been determined.

During the year, management performed its annual evaluation of the carrying value of goodwill and concluded that goodwill of its reporting units was not impaired.

Property, plant and equipment

Property, plant and equipment ("PP&E") are recorded at cost and are depreciated over their estimated useful lives on a declining balance basis (except for leasehold improvements where a straight line basis is used). Judgment is involved in determining the useful life of the PP&E and the appropriate annual depreciation rate. The Corporation's investment in PP&E results in depreciation expense being a significant component of operating expenses of the company and any misjudgment in determining the useful life and annual depreciation rate could result in a misstatement of depreciation expense.

Future income taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Corporation's consolidated financial statements. Income tax assets and liabilities, both current and future, are measured according to the income tax legislation that is expected to apply when the asset is realized or when the liability settled. If the company's interpretations differ from those of tax authorities or judgments with respect to tax losses change, the income tax provision could increase or decrease, potentially significantly, in future periods.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Datec Group Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada. The significant accounting policies, which management believes are appropriate for the company, are described in Note 3 to the consolidated financial statements.

Management is responsible for the integrity and objectivity of the financial statements. Estimates are necessary in the preparation of these statements and, based on careful judgments, have been properly reflected in the financial statements. Management has established systems of internal control which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to provide reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee of the Board, which is comprised of outside directors and which meets periodically with management and the independent auditors to discuss the company's financial reporting practices and procedures, its systems of internal accounting controls, the planned scope of examinations by independent auditors and their findings and recommendations. It also reviews the company's financial statements. The accompanying consolidated financial statements have been reviewed and approved by the Audit Committee and the Board of Directors.

The company's auditors, Kingston Ross Pasnak LLP, Chartered Accountants, conduct an examination on behalf of the shareholders, in accordance with Canadian generally accepted auditing standards and express their opinion on the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements of the company. The independent auditors have full access to the Audit Committee of the Board, with and without management being present.

Casey O'Byrne
Director

Andrew Chamberlain
Director

AUDITORS' REPORT

To the shareholders of Datec Group Ltd:

We have audited the consolidated balance sheet of Datec Group Ltd as at December 31, 2003 and the consolidated statements of earnings, deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP
Chartered Accountants

Edmonton AB
May 12, 2004

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2003 AND DECEMBER 31, 2002

	Note	2003	2002
ASSETS			
Current Assets			
Cash		$743,155	$769,548
Accounts receivable		11,205,720	8,876,333
Other receivables		1,135,642	1,072,823
Taxation receivable	9	125,962	717,368
Inventories		3,617,369	3,206,905
		16,827,848	14,642,977
Contingencies & Commitments	15,16	–	–
Deferred development costs	10	215,657	–
Property, Plant and Equipment	5	7,873,342	7,651,814
Future tax assets	9	1,037,348	626,593
Goodwill	6	12,745,211	10,881,915
		$38,699,406	$33,803,299
LIABILITIES & SHAREHOLDERS' EQUITY			
Current Liabilities			
Bank indebtedness	7	$2,452,401	$1,824,364
Accounts payable		4,991,937	4,565,263
Accrued liabilities		5,440,305	6,464,235
Deferred revenue		3,865,013	3,830,296
Current portion of long-term debt	7	1,152,340	786,967
		17,901,996	17,471,125
Contingencies & Commitments	15,16	–	–
Long term debt – related parties	7	3,838,963	4,948,687
– external parties	7	1,113,054	579,800
Future tax liability	9	149,401	122,946
		23,003,414	**23,122,558**
Non-controlling interest	19	1,898,929	1,602,120
Shareholders' equity			
Share capital	8(a)	32,765,393	29,609,775
Contributed surplus	18	1,774,501	1,563,499
Deficit		(20,618,099)	(22,217,020)
Foreign currency translation adjustment		(124,732)	122,367
		13,797,063	9,078,621
		15,695,992	**10,680,741**
		$38,699,406	$33,803,299

Approved by the Board

Casey O'Byrne
Director

Andrew Chamberlain
Director

See the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2003
AND THE YEAR ENDED DECEMBER 31, 2002

	Note	2003	2002
Revenues		$48,631,278	$42,128,941
Cost of sales		24,814,139	22,105,349
Gross profit		23,817,139	20,023,592
Expenses			
Amortization		1,410,519	1,250,588
Interest on long term debt		743,719	1,007,427
Salaries and commissions		9,774,133	8,322,486
Loss on disposal of property, plant and equipment		31,418	427,527
Other operating expenses		10,277,318	8,256,277
Total operating expenses		22,237,107	19,264,305
Earnings from operations before other income		1,580,032	759,287
Foreign exchange gains		76,819	156,564
Other income		26,131	337,008
Earnings from operations before income taxes		1,682,982	1,252,859
Income taxes (recoverable)	9	(113,106)	(130,175)
Net Earnings from operations before non-controlling interests		1,796,088	1,383,034
Non controlling interest		197,167	177,333
Net Earnings for the year		$1,598,921	$ 1,205,701
Basic Earnings per common share from operations	8(d)	$ 0.14	$ 0.19
Diluted Earnings per common share from operations	8(d)	$ 0.10	$ 0.18

See the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2003
AND THE YEAR ENDED DECEMBER 31, 2002

	Note	2003	2002
Deficit, beginning of the year		$(22,217,020)	$(23,422,721)
Net Earnings for the year		1,598,921	1,205,701
Deficit, end of the year		$(20,618,099)	$(22,217,020)

See the accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2003
AND THE YEAR ENDED DECEMBER 31, 2002

	Note	2003	2002
Cash flows from / (used in) operating activities			
Receipts from customers		$45,060,837	$48,776,000
Payments to suppliers and employees		(44,701,938)	(41,663,806)
Net interest received / (paid)		(673,505)	(1,003,941)
Income taxes refunded / (paid)		227,826	(1,325,809)
Cash flows from / (used in) operating activities	13	(86,780)	4,782,444
Cash flows from / (used in) investing activities			
Proceeds from the sale of investments and property, plant and equipment		–	1,679,103
Purchase of property, plant and equipment		(2,089,300)	(2,112,714)
Cash flows from / (used in) investing activities		(2,089,300)	(433,611)
Cash flows from / (used in) financing activities			
Proceeds from loans to related party		251,034	–
Proceeds from mortgage finance raised		1,854,267	–
Proceeds from equity		300,000	–
Proceeds from share options		25,000	–
Repayment of mortgage financing		(898,327)	(5,018,333)
Cash flows from / (used in) financing activities		1,531,974	(5,018,333)
Net increase / (decrease) in cash equivalents		(644,106)	(669,500)
Cash and equivalents at beginning of the year		(1,054,816)	(669,460)
Effect of exchange rate changes on cash		(10,324)	284,144
Cash and equivalents at end of the year		$ (1,709,246)	$ (1,054,816)
Cash and equivalents comprised of:			
Cash		743,155	769,548
Bank indebtedness		(2,452,401)	(1,824,364)
		$(1,709,246)	$(1,054,816)

See the accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
AND THE YEAR ENDED DECEMBER 31, 2002

1. BASIS OF PRESENTATION

a) General

Datec Group Limited, ("the Company"), was incorporated under the Business Corporations Act (Alberta) on November 23, 1993, and obtained its listing on the Alberta Stock Exchange on April 14, 1994. The Company changed its name from Brocker Technology Limited to Datec Group Limited during 2003.

On February 28, 1998, the Company transferred its listing to the Toronto Stock Exchange (TSX).

On August 21, 2000, the Company also listed on the NASDAQ National Market. The Company's shares were delisted from NASDAQ effective November 27, 2002, due to the Company's failure to meet the continued listing requirements of the NASDAQ National Market.

The Company has operations in the South Pacific focussed on the marketing and distribution of information technology products, software and services. The Company principally operates in four industry segments, being the divisions by which the Company is managed, as follows:

- Distribution and sale of computer and telecommunications hardware and software;
- The hosting of client hardware and software services including the provision of technical support and services for the Technology Industry;
- Software application design and development; and
- Provision of professional consulting services.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

2. GOING CONCERN

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several historical conditions and events cast substantial doubt upon the validity of this assumption. The Company incurred significant operating losses in 2000 and 2001. Although the company has achieved profitable operations in 2002 and 2003, it is still in a significant deficit position. If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net earnings and the balance sheet classifications used.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

The Company earns substantially all of its revenue from the sale and delivery of products and services to its customers. Revenue is recorded when the products are shipped or services rendered to customers, the selling price is determinable and collectibility is reasonably assured.
The Company has deferred certain revenue that has been received in advance of the services being provided, primarily being for network support contracts.
The Company recognizes a provision for warranties at the time the underlying products are sold. The provision is based on historical warranty data. Certain products sold are backed by manufacturers' warranties in which case no provision is made.

b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiary companies since the dates of their acquisition. All intercompany balances and transactions have been eliminated upon consolidation. Companies consolidated comprise the following:

Name	Percentage Ownership	Fiscal Year End
Brocker New Zealand Limited	100%	31 December
Brocker Financial Limited	100%	31 December
Brocker Application Developments Limited	100%	31 December
Datec Investments Limited	100%	31 December
Datec Queensland Limited	100%	31 December
Datec New Zealand Limited	100%	31 December
Datec Tuvalu Limited	100%	31 December
Datec Tonga Limited	100%	31 December
Datec Samoa Limited	100%	31 December
Datec Papua New Guinea Limited	50%	31 December
Datec Fiji Limited	100%	31 December
Datec Australia Limited	100%	31 December
Fiji Shop Limited	66%	31 December
Generic Technology Group Limited	100%	31 December
Industrial Communication Services Limited	100%	31 December
Kepra Software Limited	66%	31 December
Pacific Software Limited	100%	31 December
PC Pacific Limited	100%	31 December
Network Services Limited	100%	31 December
Pritech Limited	100%	31 December
Sealcorp Telecommunications Limited	100%	31 December
Tech Support Limited	100%	31 December
Telecom Pacific Limited	100%	31 December

The 2003 results for Datec New Zealand Limited (trading as Certus Consulting) reflect eight months trading only.

The 2002 results for Datec Tuvalu Limited, Datec Tonga Limited and Datec Samoa Limited reflect nine months trading only.

c) Inventories

Inventories principally comprise finished goods and are carried at the lower of cost and net realizable value. Cost is determined on a weighted average or first in first out basis.

d) Property, plant and equipment

Property, plant and equipment is recorded at cost. Amortization is calculated on a declining balance basis (except for leasehold improvements where a straight line basis is used) using the following annual rates:

Buildings	2%
Office equipment	20%
Vehicles	20 and 26%
Furniture and fixtures	20%
Computer hardware	20 to 30%
Computer software	30 to 40%
Plant and equipment	20 to 26%

e) Goodwill

Indefinite life assets such as goodwill are initially recognized and carried at cost. Goodwill is not amortized, but is reviewed annually for impairment, or when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. When such review indicates that the estimated future cash flows or benefits associated with these assets would not be sufficient to recover their carrying value, the excess of carrying value over fair value will be recognized as an impairment loss and charged to expense in the period that impairment has been determined.

f) Research and development expenditures

Research costs, other than capital expenditures, are expensed as incurred. Development costs are expensed as incurred unless they meet the criteria under Canadian generally accepted accounting principles for deferral and amortization. Deferred development costs are amortized over the expected life of the developed product, currently a maximum of three years. Amortization commences upon commercial production of the product or process.

g) Future income taxes

Future income taxes are accounted for under the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

Withholding taxes payable on repatriation of earnings of foreign operations are not provided, as it is not expected that those earnings will be repatriated in the foreseeable future.

h) Earnings per share

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year. Interest, carrying costs, and accretion charges associated with convertible debentures are deducted from net earnings for the purpose of calculating earnings per share available to common shareholders.
Diluted earnings per share is calculated on the basis of the weighted average number of shares outstanding during the period, plus the additional common shares that would have been outstanding if potentially dilutive common shares issuable under stock options and warrants had been issued using the treasury stock method. The calculation of diluted earnings per share also applies the "if converted" method for convertible debentures, which assumes conversion into common shares outstanding since the beginning of the period.

i) Stock-based compensation

The company has stock-based compensation plans, as described in Note 8. The Company measures compensation cost based on the excess, if any, of the quoted market value of the stock at the date of the grant over the amount an optionee must pay to acquire the stock. As the exercise prices of the options approximate market value at the grant date, no compensation expense has been recognized to date under the stock option plan. In addition, under the current standard, for options granted after December 31, 2001, the company is required to disclose pro forma net income and earnings per share information as if the fair value method of accounting had been used.

Options granted or stock payments to non employees are deemed to be consideration given up in exchange for goods or services and are measured at fair value, which is charged to the appropriate asset or expense.

Consideration paid by option holders for the purchase of stock is credited to share capital. If share options are repurchased from the holder, the consideration paid is charged to retained earnings.

j) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, short term bank indebtedness and investments in money market instruments. Cash and cash equivalents included in the cash flow statement are comprised solely of balances and indebtedness with banks.

k) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases, wherein rental payments are expensed as incurred.

l) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

m) Foreign currency translation

Revenue and expense transactions denominated in foreign currencies are translated into Canadian dollars at the average exchange rates in effect at the time of such transactions. Monetary assets and liabilities are translated at current rates at the balance sheet date. Gains or losses resulting from these translation adjustments are included in other income.
The Company's foreign subsidiaries are considered to be self-sustaining foreign operations and accordingly, are converted to Canadian dollars using the current method. Under this method, foreign exchange gains and losses arising from the translation of the foreign subsidiaries' accounts into Canadian dollars are deferred and reported as cumulative foreign currency translation adjustment as a separate component of shareholders' equity.

The following exchange rates were used in the preparation of the financial statements:

New Zealand dollar	**Average rate**	**End of year**
December 2003	0.8202	0.8511
December 2002	0.7043	0.7534
Australian dollar	**Average rate**	**End of year**
December 2003	0.9120	0.9678
December 2002	0.8564	0.8439
Fiji dollar	**Average rate**	**End of year**
December 2003	0.7326	0.7405
December 2002	0.6877	0.6805
Papua New Guinea kina	**Average rate**	**End of year**
December 2003	0.4087	0.3800
December 2002	0.3579	0.3686
Vanuatu vatu	**Average rate**	**End of year**
December 2003	0.0140	0.0136
December 2002	0.0162	0.0159

4. ACQUISITIONS AND DIVESTMENTS

(a) Acquisition in 2003

CERTUS CONSULTING LIMITED

As at May 1, 2003, the Company acquired 66% of the assets and liabilities of Certus Consulting Limited, a privately owned New Zealand based company. Certus is an IT consulting and technology implementation company and an IBM premier software partner.

This purchase consideration was by way of issuing 750,000 common shares in Datec Group Ltd at CAN$0.375, 293,003 ordinary shares in Datec New Zealand Ltd, issued at NZ$1 (CAN$0.81), and cash consideration by way of vendor loan amounting to NZ$1,427,187 (CAN$1,157,449). This loan accrues interest at 7.83% from May 1, 2003. An initial payment of $43,863 is to be made prior to March 31, 2004 and the remaining balance is to be fully repaid prior to December 31, 2009.

Assets and liabilities acquired:

	NZ$	CAN$
Bank (overdraft)	(109,013)	(95,634)
Trade Debtors	341,501	299,590
Sundry Debtors	5,252	4,607
Plant & Equipment	173,358	152,082
Trade Creditors	(253,463)	(222,356)
Income in Advance	(95,976)	(84,197)
Sundry Payables	(116,676)	(102,357)
Goodwill	2,123,957	1,863,296
Consideration paid to date and accrued	**2,068,940**	**1,815,031**
Cash payments made	50,000	43,863
Cash payments accrued	1,377,187	1,208,174
Shares to be issued	641,753	562,994
Consideration paid to date and accrued	**2,068,940**	**1,815,031**

Datec New Zealand Ltd operates under the trade name of Certus Consulting.

The vendor of Certus Consulting Limited has continued involvement with the company in a management capacity, and upon completion of the transaction has become a shareholder of Datec Group Limited.

(b) Divestments in 2002

DATEC VANUATU LIMITED

Generic Technology Limited divested its 66% interest in the business Datec (Vanuatu) Limited for the sum of $268,000. This represented a gain on sale of $223,780. Under the term of sale the purchaser of the business relinquished the use of the name Datec Vanuatu Limited, and Datec Group Limited formed a wholly owned subsidiary company that now operates in Vanuatu under the name Datec Vanuatu Limited.

NEW ZEALAND PROPERTY

Effective December 24th, 2002 the Company disposed of its New Zealand head office property for a sale price of $2,034,180, yielding net sales proceeds of $587,776. The net book value of this property at the time of sale was $2,335,540 and, in consequence, the Company realized a net loss of $301,360 on the sale of this property.

5. PROPERTY, PLANT AND EQUIPMENT

	2003		
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	$166,366	–	$166,366
Buildings	$4,656,440	(431,874)	4,224,566
Office equipment			
- leased	–	–	–
- non-leased	585,481	(287,558)	297,923
Vehicles			
- leased	276,294	(58,084)	218,210
- non-leased	555,115	(154,273)	400,842
Furniture and fixtures			
- leased	–	–	–
- non-leased	797,908	(380,605)	417,303
Computer hardware			
-leased	–	–	–
-non-leased	1,659,065	(926,015)	733,050
Computer software			
- leased	–	–	–
- non-leased	327,004	(111,346)	215,658
Plant and equipment			
- leased	–	–	–
- non-leased	2,783,501	(1,584,077)	1,199,424
	$11,807,174	**$3,933,832**	**$7,873,342**

	2002		
	Cost	**Accumulated Amortization**	**Net Book Value**
Land	$166,366	–	$166,366
Buildings	3,966,744	(189,591)	3,777,153
Office equipment			
- non-leased	550,487	(284,562)	265,925
Vehicles			
- leased	357,602	(31,745)	325,857
- non-leased	269,103	(83,270)	185,833
Furniture and fixtures			
- non-leased	536,638	(356,009)	180,629
Computer hardware			
-leased	–	–	–
-non-leased	1,009,046	(508,256)	500,790
Computer software			
- non-leased	190,114	(86,824)	103,290
Plant and equipment			
- leased	507,506	(148,807)	358,699
- non-leased	3,225,597	(1,438,325)	1,787,272
	$10,779,203	**$3,127,389**	**$7,651,814**

Amortization provided for in the current year totalled $1,410,519 (2002 - $1,250,588).

6. GOODWILL

	Note	2003	2002
Goodwill		**$12,745,211**	**$10,881,915**
Goodwill movement in the period:			
Opening Goodwill		$10,881,915	$10,881,915
Goodwill on acquisition of Certus Consulting	4(a)	1,863,296	–
Impairment Losses Recognised		–	–
Closing Goodwill		**$12,745,211**	**$10,881,915**

7. INDEBTEDNESS

	2003	2002
a) Mortgage and lease debt		
Mortgage finance liability, payable in Fiji Dollars, with current interest rates of 7.29 – 7.66%, collateralised by land and buildings Payable over 10 years, ending May 2012	$ 1,770,343	$ 786,326
Less: Current portion	(797,211)	(378,565)
	973,132	407,761

The monthly principal and interest payments on this mortgage and lease debt amount to $19,864.

	2003	2002
Capital lease obligations payable in Fiji Dollars	451,188	580,441
Less: Current portion	(311,266)	(408,402)
Capital lease obligations – Non Current	139,922	172,039
	$ 1,113,054	$ $579,800
Future Minimum Lease Payments	308,181	434,459

The monthly principal and interest payments on these capital lease obligations amount to $24,259.

The lease expiry dates range between May 2004 and February 2006 and incur interest rates ranging from 9% - 15%. The leases are collateralised by related assets.

		2003		2002
b) Debenture	$	2,474,344	$	4,948,687

A first ranking debenture was issued to the vendors of Generic Technology Group, in connection with the renegotiated terms of the acquisition of the Generic Group by the Company. This represents the outstanding principal as at the closing date (October 2000) plus interest from that date, less amounts being settled by cash or shares. In September 2003, the Company settled $2,474,343 of the debenture by the issuance of 3,299,124 common shares at a share of $0.75 per share.

This debenture bears an interest rate of 8% and is to be repaid by October 2005. It is secured by the assets and liabilities of the Datec Group. All of the debenture is payable to directors or officers or companies related to or controlled by directors or officers.

$1,379,887 of the debenture was settled subsequent to the year end by conversion to equity (refer to Note 17(b)).

		2003		**2002**
c) Shareholder Loan	$	1,408,482	$	–
Less: Current Portion		43,863		–
Total long term debt	$	1,464,619	$	–

The shareholder loan is comprised of two balances, payable to the vendors of Certus Consulting Ltd and a director of the company. The loans accrue interest at a rate of 7.83%. Repayment terms specify the loans must be repaid prior to December 31, 2009. As at December 31, 2003, $725,000 of the total loans are convertible to common shares at a price of $0.30 per share and were settled subsequent to year end by conversion to equity (refer to Note 17(b)).

Total long term debt	$	4,952,017	$	5,528,487
Disclosed as:				
Long Term Debt – Related Parties	$	3,838,963	$	4,948,687
Long Term Debt – External Parties	$	1,113,054	$	579,800

The total interest expense for the year in relation to long-term debt was as follows:

Related Parties	$	370,444	$	395,895
Non Related Parties		373,275		611,532
	$	743,719		1,007,427

d) Repayment Dates

Capital lease obligations are repayable as follows:

In less than 1 year	$	311,266	$	408,402
1 to 2 years		139,922		148,558
2 to 3 years		–		23,481
	$	451,188	$	580,441

Mortgage finance liabilities are repayable as follows:

In less than 1 year	$ 797,211	$ 378,565
1 to 2 years	702,195	199,216
2 to 3 years	101,598	54,671
3 to 4 year	99,396	54,671
4 years and over	69,943	99,203
	$ 1,770,343	$ 786,326

e) Bank Indebtedness

Bank Overdraft	$ 2,452,401	$ 1,824,364

The bank overdraft incurs interest at rates of 7.79% (Fiji) and 12.5% (Papua New Guinea). It is a revolving facility with no fixed repayment date and is secured by the following:

- equitable mortgage debenture over the assets and liabilities of Datec Fiji Limited and Datec Papua New Guinea Limited;
- unlimited company guarantee by Generic Technology Group Limited;
- unlimited joint and several debt and interest guarantee by the Directors of Generic Technology Group Limited;
- registered first mortgage over the land and building assets of Generic Technology Group Limited.

The maximum facility available to the company is $4,500,000.

8. SHARE CAPITAL

a) Authorized

Unlimited number of common shares
Unlimited number of Preferred Shares
10,000,000 Series A Preferred Shares - 6_% cumulative

Issued and outstanding

		2003	2002
Common shares	8(b)(i)	$34,573,112	$31,667,602
Shares to be issued	8(b)(iii)	520,463	211,161
Less: Share issue costs		(2,328,182)	(2,268,988)
		$32,765,393	$29,609,775

As at December 31, 2003 12,430 shares (2002 - 253,855 shares) were being held in escrow pursuant to Escrow Agreements, which provide for the release of such shares on a performance basis. As at June 30, 2003, 247,640 escrowed shares relating to various previous business acquisitions, were cancelled under expired escrow agreements.

b) Share Transactions

(i) Common Shares

	2003		2002	
	Shares	Amount	Shares	Amount
Shares issued - at beginning of year	6,809,466	$33,325,084	4,854,524	$25,601,200
Issue of shares for acquisition of Generic Technology Group	–	–	348,442	5,561,134
Issue of shares to senior management of Generic Technology Group	–	–	87,500	1,396,500
Issue of shares for acquisition of Generic Technology Group (amended terms)	–	–	1,500,000	750,000
Issue of shares for executive compensation	182,679	106,167	9,000	11,250
Exercise of stock options	50,000	25,000	10,000	5,000
Cancellation of shares held in escrow	(247,640)	(1,657,430)	–	–
Private placement	400,000	300,000	–	–
Issue of shares for debt	3,299,124	2,474,343	–	–
Adjustment for share split	10,493,629	–	–	–
Shares issued – at end of year	20,987,258	34,573,164	6,809,466	33,325,084
Acquisition shares held in escrow	(12,430)	(52)	(253,855)	(1,657,482)
Shares outstanding - at end of year	20,974,828	$34,573,112	6,555,611	$31,667,602

During the current year the company completed the settlement of $2,474,343 of long term debt by the issuance of 3,299,124 common shares at a price of $0.75 per share. The debt settled represents one half of the principal amount of the debenture for the outstanding balance of the purchase price of Generic Technology Group Limited.

The company also completed during the current year a private placement of 400,000 units at a price of $0.75 per unit for total proceeds of $300,000. Each unit represents one common share and one half warrant. Each full warrant will entitle the purchase of one additional common share at a price of $1.50 per share for a period of two years, expiring October 2005. These private placement shares were subject to a four month hold period, expiring February 2004.

(ii) Warrants

Warrants outstanding at	2003(1)	2002(1)
Kaufmann Bros. Warrants	150,000(2)	75,000(2)
First Montauk Warrants	800,000(3)	–
Hedlin Lauder Warrants	200,000(4)	–
Other Warrants	4,867,032(5)	1,225,182(5)
	6,017,032	1,300,182

(1) Share figures and prices and disclosures below for the current year have been adjusted to reflect the two-for-one stock split effected in October of 2003.

(2) On April 11, 2001 the Company by special resolution agreed to grant 150,000 warrants to Kaufmann Bros. L.P under an agreement originally entered into in October 2000 to provide capital planning and financial services to the Company. The warrants were issued in 3 parcels of 50,000 shares with exercise prices of USD $4, $6 and $8 per share. These warrants expired subsequent to December 31, 2003 without being exercised.

(3) Under a consulting agreement entered into with First Montauk Securities Corp. the Company has issued to First Montauk warrants to purchase a total of 800,000 shares. 400,000 of the warrants have an exercise price of $0.475 per share and 400,000 warrants have an exercise price of $0.75 per shares. The warrants have a term of 5 years, expiring September 2008.

(4) Pursuant to a consulting agreement with Heldin Lauder Associates Inc. the Company has issued 200,000 Warrants to Hedlin Lauder, which have an exercise price of $0.55 per share and a term of 5 years (subject to earlier termination if the agreement is terminated), vesting over a period of 18 months, expiring September 2008.

(5) Pursuant to the amended terms of the acquisition of Generic Technology Group the Company issued 2,186,364 warrants. Each of these warrants entitles the holder to purchase one common share of the Company at a price of $0.375 per share. 1,200,000 of these warrants expire January 21, 2006 and 986,364 expire January 21, 2007. In addition, the Company issued 264,000 warrants in connection with convertible loans. These warrants have an exercise price of $0.375 per common share and an expiry date of January 21, 2006. During 2003 the Company entered into convertible loan agreements that provided for the issuance of 2,416,668 warrants with an exercise price of $0.30, expiring January 31, 2005.

(iii) Shares to be issued

At December 31, 2003, there were 750,000 shares in Datec Group Limited and 293,003 shares in Datec New Zealand Limited due to be issued in relation to the purchase of Certus Consulting (Note 4(a)). These shares were valued at $0.375 and $0.85 respectively.

At December 31, 2002 there were 4,413 shares due to be issued in relation to the earn out of 1World Systems Limited. These shares were valued at $47.00, being the equivalent market value of these shares as at March 31, 2000, the date the conditions for their issue were met. Conditions for the issuance of these shares to be issued expired on March 31, 2003; the amount of $211,161 has been credited to contributed surplus.

	2003		2002	
	Quantity	**Amount**	**Quantity**	**Amount**
Certus Consulting	1,043,003	$520,463	–	–
Executive Compensation	–	–	3,000	$3,750
1World Systems Ltd	–	–	4,413	207,411
	1,043,003	$520,463	7,413	$211,161

(c) Unexercised stock options

	2003		2002	
	Number	**Per Share Amount**	**Number**	**Per Share Amount**
Options outstanding at beginning of year	316,250	$14.24	187,000	$32.71
Granted	375,000	0.71	225,000	0.50
Exercised	(100,000)	0.25	(10,000)	0.50
Adjustment for share split	316,250	–	–	–
Adjusted sub total	907,500		402,000	
Cancelled/Expired	(100,000)	22.50	(85,750)	20.04
Options outstanding at end of year	807,500	$3.09	316,250	$14.24

As at December 31, 2003 and 2002 all outstanding options are able to be exercised.

Options held by the Directors of the Company totalling 805,000 shares (2002-315,000 shares) are as follows:

Number of Options	Exercise Price	Expiry Date
75,000	$22.50	02/29/05
25,000	$16.90	08/21/05
330,000	$0.25	01/24/07
375,000	$0.71	11/14/08
805,000	**$3.05**	

Options are held by employees of the Company totalling 2,500 shares (2002-1,250) are as follows:

Number of Options	Exercise Price	Expiry Date
2,500	$14.80	03/30/05

There are no criteria that need to be met before the Options can be exercised by the holder. Options are forfeited in the event the holder ceases to be a Director or employee of the Company or one of its subsidiaries.

All option amounts and exercise prices have been adjusted to reflect the two-for-one stock split effected in October 2003.

Proforma net earnings and earnings per share, reflecting the impact of stock-based compensation using the fair value method arising from options granted to directors and employees after December 31, 2001 is presented below:

	2003	**2002**
Earnings before income taxes	$ 1,682,982	$1,252,859
Compensation expense under CICA 3870	–	76,950
	1,682,982	1,175,909
Pro forma income taxes (recovery)	(113,106)	(130,175)
Pro forma non-controlling interest	197,167	177,333
Pro forma net earnings for the period	$1,598,921	$1,128,751
Pro forma basic earnings per share	$0.14	$0.19
Pro forma diluted earnings per share	$0.10	$0.18

For pro forma disclosure purposes, the Company uses the Black-Scholes option-pricing model to value the options at each grant date, under the following weighted average assumptions:

	2003	**2002**
Dividend rate	0%	0%
Annualized volatility	121.33%	120.83%
Risk-free interest rate	4.82%	4.56%
Expected life of options in years	2.1	3.0

The pro forma amounts estimated according to the Black-Scholes option pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

d) Earnings per common share

Earnings per share has been calculated on the basis of the weighted average number of common shares outstanding for the period.

	2003	2002
Weighted average number of shares	11,539,137	6,348,115
Earnings attributable to shareholders	$1,598,921	$1,205,701
Basic Earnings per share from operations	$0.14	$0.19
Diluted Earnings per share from operations	$0.10	$0.18

9. INCOME TAXES

Income tax (recovery) attributable to income from profit was ($113,106) and ($130,175) for the year ended December 31, 2003 and the year ended December 31, 2002, respectively, and differed from the amounts computed by applying the Canadian income tax rate of 36.62% (2002: 39.12%) to pre-tax loss/profit from continuing operations as a result of the following:

	2003	2002
Expected income tax expense calculated at the statutory rate on earnings before taxation	$616,308	$471,670
Income tax expense		
Adjustment for foreign tax rates	(4,985)	11,848
Prior years overprovision	–	(438,831)
Recognition of tax losses	(733,217)	–
Other	8,788	(174,862)
	$(113,106)	$(130,175)

Total income tax expense is made up of:		
Current income taxes	$271,194	$(135,583)
Future tax liability	26,455	64,226
Future tax assets	(410,755)	(58,818)
	$(113,106)	$(130,175)

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2003 and December 31, 2002 are presented below.

	2003	**2002**
Future tax assets:		
Accounts receivable principally due to allowance for doubtful accounts	$282,665	$146,528
Inventories, principally due to allowance for obsolescence	112,487	150,131
Compensated absences, principally due to accrual for financial reporting purposes	214,370	295,66
Tax losses available for future use	385,659	–
Other	42,167	34,273
Future tax assets	$1,037,348	$626,593
Future tax liabilities:		
Property, plant & equipment, principally due to allowance for amortization differences between accounting and tax	$149,401	$122,946
Future tax liabilities	$149,401	$122,946

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the future tax asset, the Company will need to generate future taxable income. Based upon the level of historical taxable income and projections for future taxable income over the periods that the future tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible assets. The amount of the future tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

Tax losses available for carry forward but not recognized as future tax assets amount to $444,300.

10. DEFERRED DEVELOPMENT COSTS

	2003	2002
Development costs deferred beginning of year	–	$146,458
Development costs deferred during the year	$215,657	–
	215,657	146,458
Amortized during the year	–	146,458
Development costs deferred end of year	$215,657	$ –

Development costs deferred principally related to the development of software applications.

11. RELATED PARTY TRANSACTIONS

During the year a legal firm in which a director of the Company is a partner charged legal fees and disbursements of $35,561 (2002 - $13,711).

12. SEGMENTED OPERATIONS

The Company operates in the Pacific Islands, New Zealand and Australia. The Canadian operations shown relate to administrative activities only. The reporting of all business segments is consistent with those reported in the prior period.

The Company principally operates in four industry segments, being the divisions by which the Company is managed, as follows:

- Distribution and sale of computer and telecommunications hardware and software ("Vendor Services");
- The hosting of client hardware and software services including the provision of technical support and services for the Technology Industry ("Application Hosting");
- Software application design and development ("Application Development"); and
- Provision of professional consulting services ("Professional Services").

The corporate services operation shown relates to the Company's administrative functions in the Pacific Islands New Zealand and Canada.

2003 ($)	Canada	Australia	Pacific	New Zealand	Total
Sales	–	5,845,071	34,624,570	8,161,637	48,631,278
Net income/(loss)	(241,644)	(28,676)	302,329	1,566,912	1,598,921
Amortization	–	31,043	1,296,066	83,410	1,410,519
Net interest expense	–	–	401,092	342,627	743,719
Identifiable assets	151,080	841,970	36,802,950	910,398	38,706,398
Goodwill	–	–	10,881,915	1,863,296	12,745,211
Capital expenditures	–	–	1,889,614	199,686	2,089,300

2002 ($)	Canada	Australia	Pacific	New Zealand	Total
Sales	–	–	42,128,941	–	42,128,941
Net income/(loss)	(115,918)	–	1,321,619	–	1,205,701
Amortization	–	–	1,250,588	–	1,250,588
Net interest expense	–	–	1,007,427	–	1,007,427
Identifiable assets	76,463	–	33,726,836	–	33,803,299
Goodwill	–	–	10,881,915	–	10,881,915
Capital expenditures	–	–	433,041	–	433,041

2003 ($)	Vendor Services	Application Hosting	Application Development	Professional Services	Corporate Services	Total
Sales	36,908,988	4,394,238	1,464,746	5,863,306	–	48,631,278
Net income/(loss)	1,353,189	184,641	61,547	241,188	(241,644)	1,598,921
Amortization	1,071,994	126,946	42,315	169,264	–	1,410,519
Net interest expense	565,226	66,935	22,311	89,247	–	743,719
Identifiable assets	29,302,041	3,469,978	1,156,659	4,619,648	151,080	38,699,406
Capital expenditures	1,587,868	188,037	62,679	250,716	–	2,089,300

2002 ($)	Vendor Services	Application Hosting	Application Development	Professional Services	Corporate Services	Total
Sales	32,439,284	421,289	1,263,868	8,004,500	–	42,128,941
Net income/(loss)	836,611	11,007	33,022	440,979	(115,918)	1,205,701
Amortization	962,953	12,506	37,518	237,611	–	1,250,588
Net interest expense	775,718	10,072	30,222	191,415	–	1,007,427
Identifiable assets	25,690,507	338,032	676,064	7,022,233	76,463	33,803,299

The accounting policies adopted by each of the individual segments are as disclosed in Note 3.

13. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of net profit and cash flow from operating activities

	Year Ended December 2003	Year Ended December 2002
	$	$
Net Earnings for the year	1,598,921	1,205,701
Add/(Less) non-cash items:		
Amortization	1,410,519	1,250,588
Non-controlling interest	197,167	(177,333)
Loss on sale of property, plant and equipment	31,418	427,528
Unrealised foreign exchange gain	–	(156,564)
Effect of exchange rate changes on cash	(127,356)	(128,252)
Bad debts	463,060	192,420
Other non-cash items	(286,749)	(194,165)
Impact of changes in working capital items:		
Decrease / (Increase) in accounts receivable	(2,329,387)	5,538,094
Decrease / (Increase) in other receivables	(62,819)	–
Decrease / (Increase) in taxation receivable	589,406	(1,476,240)
Decrease / (Increase) in future tax liability	26,456	–
Decrease / (Increase) in future tax assets	(410,756)	–
Decrease / (Increase) in deferred costs	(215,657)	–
Decrease / (Increase) in inventories	(410,464)	826,434
Decrease / (Increase) in deferred revenue	34,717	2,235,596
Decrease / (Increase) in accounts payable	426,674	(6,316,362)
Decrease / (Increase) in accrued liabilities	(1,021,930)	1,554,999
Net cash flow from/(used in) operating activities	(86,780)	4,782,444

14. FINANCIAL INSTRUMENTS

The nature of activities and management policies with respect to financial instruments are as follows:

i) Foreign currency

The Company uses a very limited number of forward exchange contracts and currency options to hedge purchases of inventory in foreign currencies. The Company's exchange rate commitments are intended to minimize the exposure to exchange rate movement risk on the cost of the Company's products and on the price it is able to sell those products to its customers. The Company does not use foreign exchange instruments for trading or any other purpose.

No forward exchange contracts were entered into during the year ended December 31, 2003 or the year ended December 31, 2002.

ii) Concentration of credit risk

In the normal course of business, the Company incurs credit risk from accounts receivable and transactions with financial institutions. The Company has a credit policy, which is used to manage the risk. As part of this policy, limits on exposure with counterparties have been set and are monitored on a regular basis. Anticipated bad debt losses have been provided for in the allowance for doubtful accounts.

The Company has no significant concentrations of credit risk. The Company does not consider that it requires any collateral or security to support financial instruments due to the quality of financial institutions and trade debtors.

iii) Interest rate risk

The Company has adopted a policy of ensuring that its exposure to changes in interest rates is on a fixed rate basis. The Company does not hedge against interest rate fluctuations.

iv) Fair values

The fair values of the Company's cash accounts, accounts receivable and other receivables, bank indebtedness, accounts payable, accrued liabilities and lease obligations approximate the carrying values given their short-term nature. The carrying value of the debenture, capital leases and other long term debts, as disclosed in note 7, also approximate their fair value.

15. COMMITMENTS

There were no material or unusual commitments at December 31, 2003.

As at December 31, 2002 the following earn-outs were in existence:

1 World Systems Limited

Shares to be held in escrow based on cash flow earned for the year ended March 31, 1999. Earn-out based on defined cash flow earned in financial years ended March 31, 2001 – 2002.

16. CONTINGENCIES

There were no material or unusual contingent liabilities or guarantees at December 31, 2003 .

On December 21, 2001 the Company was awarded $101,495 plus interest and costs from Jonathan Hugh Barker relating to Acquisitions of Easy PC Computer Rentals Limited. These funds have not yet been received and therefore no income has been recognised in the period.

17. SUBSEQUENT EVENTS

(a) On January 3, 2004, the Company signed an agreement to purchase 66% of the assets and operations of Sybrel Limited by way of a share purchase for cash consideration of $80,000. Sybrel's business is focussed on emerging applications for mobile business software and operates in the same geographic areas as the Company.

(b) On May 5, 2004, creditors agreed to convert $725,000 of convertible loans to common shares at a price of $0.30 per share (refer to Note 7(c)). An additional $1,379,887 of the debenture was settled through the exercise of 2,186,364 warrants at $0.375 per share and 1,866,668 warrants at $0.30 per share (refer to Note 7(b)). In total, debt in the amount of $2,104,887 was settled in exchange for the issuance of 6,469,700 common shares.

18. CONTRIBUTED SURPLUS

At December 31, 2002, the Company had 4,413 shares due to be issued in relation to the earn out of 1World Systems Limited, a former subsidiary of the Group. During the year ended December 31, 2003, the shares held were cancelled and were credited to contributed surplus.

At March 31, 2001, the Company had 223,357 shares to be issued in respect of Certus Consulting Limited, a former subsidiary of the Group. During the year ended December 31 2001, the shares held were cancelled on the sale of the business and were credited to contributed surplus, amounting to $1,563,499.

19. NON CONTROLLING INTEREST

The Company owns 66% of Datec Papua New Guinea Limited (2002: 66%) which results in the creation of a non controlling interest representing the 34% interest of the remaining shareholder of Datec Papua New Guinea Limited.

20. COMPARATIVE FIGURES

The prior year's comparative figures were audited by Deloitte Touche Tohmatsu, Auckland, New Zealand. Certain of the comparative figures have been reclassified to conform to the current year's presentation.

CORPORATE INFORMATION

DIRECTORS:

Casey J. O'Byrne
Chairman of the Board, Compensation Committee, Executive Committee

James Ah Koy
Executive Committee

Andrew J. Chamberlain
Corporate Secretary, Audit Committee, Executive Committee

Robert Singer
Compensation Committee

Charles Stuart
Audit Committee

Ken Maddison
Chairman of the Audit Committee

Krishna Sami
Director

OFFICERS:

Casey J. O'Byrne
Chairman of the Board

Michael Ah Koy
Managing Director & Chief Executive Officer

Surya Sharma
Chief Financial Officer

Andrew J. Chamberlain
Corporate Secretary

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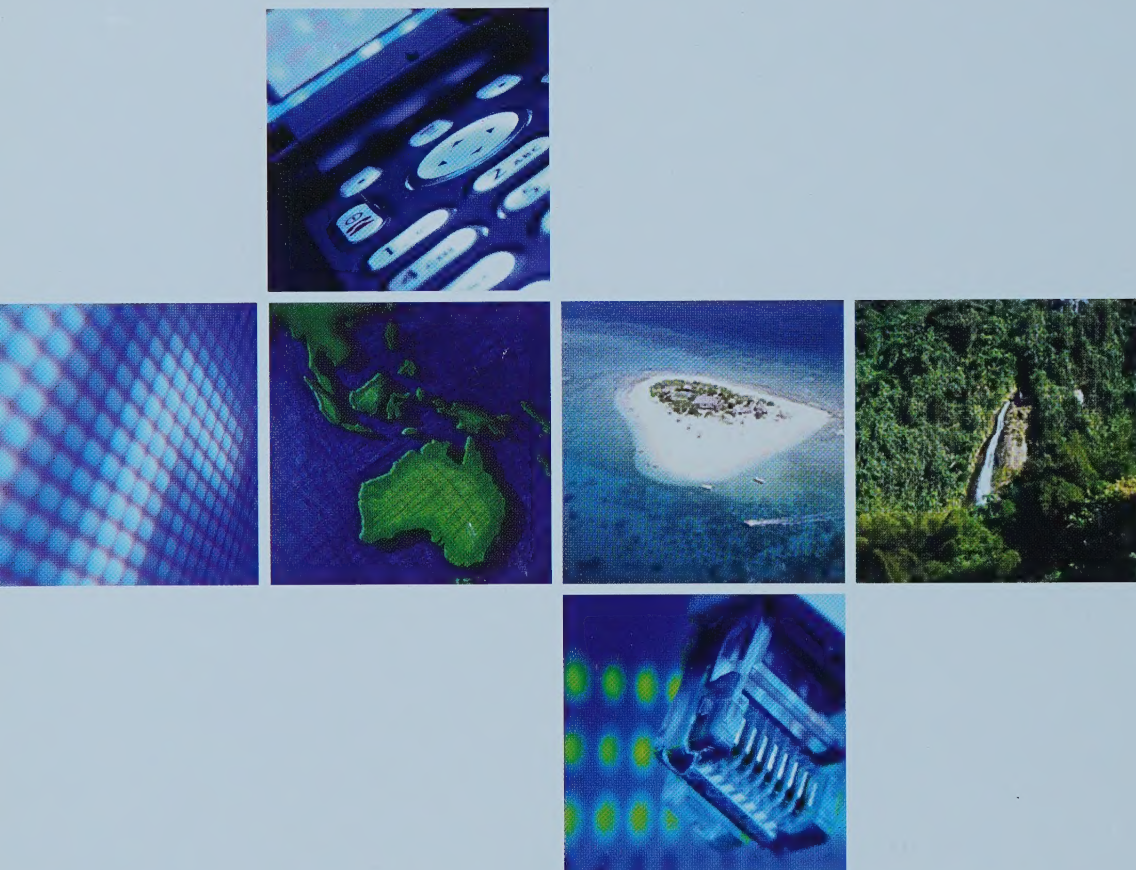

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